

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE RUSSELL COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Russell County Fiscal Court for the fiscal year ended June 30, 2007. We have issued unqualified opinions, based on our audit and the report of the other auditors, on the governmental activities, the discretely presented component unit, each major fund, and aggregate remaining fund information.

Financial Condition:

The Fiscal Court had net assets of \$5,068,041 in its governmental activities, which included unrestricted net assets of \$464,970 as of June 30, 2007. The Fiscal Court's discretely presented component unit had net assets of \$169,109 and net cash and cash equivalents of \$86,738 as of December 31, 2006. The Fiscal Court had total debt principal of \$160,902 as of June 30, 2007 with \$118,515 due within the next year. The discretely presented component unit had total debt principal of \$78,510 as of December 31, 2006 with \$14,728 due within the next year.

Report Comments:

- 2007-01 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules
- 2007-02 Purchase Requisitions Should Be Approved For All Expenditures Prior To Making Purchases
- 2007-03 The Fiscal Court Should Improve Internal Control Procedures
- 2007-04 The Airport Board Lacks Adequate Segregation of Duties
- 2007-05 The Fiscal Court Should Prepare An Accurate Financial Report To Submit To The State
Local Finance Officer
- 2007-06 The Fiscal Court Should Approve All Expenditures And Interfund Transfers
- 2007-07 All Invoices Should Be Paid Within Thirty Days As Required By KRS 65.140

Deposits:

The Fiscal Court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Russell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Russell County Tourist Commission, a discretely presented component unit, which represents 100% of the financial data of the discretely presented component opinion unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Russell County Tourist Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, Russell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky
Honorable Steve BeShear, Governor
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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Russell County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2008 on our consideration of Russell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comments and recommendations, included herein, which discusses the following report comments:

- 2007-01 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules
- 2007-02 Purchase Requisitions Should Be Approved For All Expenditures Prior To Making Purchases
- 2007-03 The Fiscal Court Should Improve Internal Control Procedures
- 2007-04 The Airport Board Lacks Adequate Segregation of Duties
- 2007-05 The Fiscal Court Should Prepare An Accurate Financial Report To Submit To The State
Local Finance Officer
- 2007-06 The Fiscal Court Should Approve All Expenditures And Interfund Transfers
- 2007-07 All Invoices Should Be Paid Within Thirty Days As Required By KRS 65.140

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 25, 2008

RUSSELL COUNTY OFFICIALS

June 30, 2007

Fiscal Court Members:

Mickey Garner	County Judge/Executive
Greg Popplewell	Magistrate
Steve Bledsoe	Magistrate
Ronald Johnson	Magistrate
Jimmy McQueary	Magistrate
Gary Robertson	Magistrate

Other Elected Officials:

Mark McGaha	County Attorney
Darrell McQueary	Jailer
Lisha Popplewell	County Clerk
Tony Kerr	Circuit Court Clerk
Larry Bennett	Sheriff
Rodney Owens	Property Valuation Administrator
Larry Skaggs	Coroner

Appointed Personnel:

Barbara Wilson	County Treasurer
Angie Bernard	Tax Administrator
Leslie Barger	Administrative Assistant
Jackie Mann	Road Supervisor

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RUSSELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

RUSSELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Tourist Commission December 31, 2006</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 464,970	\$ 86,738
Due from Russell County Fiscal Court		1,000
Total Current Assets	<u>464,970</u>	<u>87,738</u>
Noncurrent Assets:		
Capital Assets - Net of Accumulated Depreciation		
Land	547,500	30,240
Buildings and Improvements	1,271,302	114,889
Other Equipment	129,902	
Vehicles and Equipment	340,724	
Equipment and Furniture		14,752
Infrastructure Assets - Net of Depreciation	<u>2,474,545</u>	
Total Noncurrent Assets	<u>4,763,973</u>	<u>159,881</u>
Total Assets	<u>5,228,943</u>	<u>247,619</u>
LIABILITIES		
Current Liabilities:		
Financing Obligations Payable	<u>118,515</u>	<u>14,728</u>
Total Current Liabilities	<u>118,515</u>	<u>14,728</u>
Noncurrent Liabilities:		
Financing Obligations Payable	<u>42,387</u>	<u>63,782</u>
Total Noncurrent Liabilities	<u>42,387</u>	<u>63,782</u>
Total Liabilities	<u>160,902</u>	<u>78,510</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,603,071	81,371
Unrestricted	464,970	87,738
Total Net Assets	<u>\$ 5,068,041</u>	<u>\$ 169,109</u>

The accompanying notes are an integral part of the financial statements.

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RUSSELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

RUSSELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		<u>Program Revenues Received</u>	
Functions/Programs			
Reporting Entity	Expenses	Charges for	Operating
		Services	Grants and
			Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 1,303,425	\$ 3,826	\$ 1,107,436
Protection to Persons and Property	731,362	8,082	95,928
General Health and Sanitation	150,585	15,738	
Social Services	159,871		160,569
Recreation and Culture	136,597		
Roads	679,086	525	937,685
Airports	25,269	14,062	1,137
Interest on Financing Obligations	11,289		
Capital Projects	757,781		
Total Governmental Activities	<u>3,955,265</u>	<u>42,233</u>	<u>2,302,755</u>
Component Unit:			
Tourist Commission	<u>94,264</u>	<u>114,383</u>	<u>23,468</u>

General Revenues:

Taxes:

Real and Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu Of Tax Payments

Excess Fees

Miscellaneous Revenues

Reimbursements

Investment Income

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	Component Unit for the Year Ended December 31, 2006
Governmental Activities	Tourist Commission
\$ (192,163)	
(627,352)	
(134,847)	
698	
(136,597)	
259,124	
(10,070)	
(11,289)	
(757,781)	
(1,610,277)	
	43,587
440,172	
101,669	
740,959	
92,045	
87,581	
45,454	
89,780	
6,430	
1,604,090	
(6,187)	43,587
5,074,228	125,522
\$ 5,068,041	169,109

The accompanying notes are an integral part of the financial statements.

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RUSSELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

RUSSELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	ASAP Fund	Non- Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 251,557	\$ 63,705	\$ 11,374	\$ 69,771	\$ 68,563	\$ 464,970
Total Assets	<u>\$ 251,557</u>	<u>\$ 63,705</u>	<u>\$ 11,374</u>	<u>\$ 69,771</u>	<u>\$ 68,563</u>	<u>\$ 464,970</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$ 22,678	\$ 17,824	\$ 6,028	\$	\$	\$ 46,530
Unreserved:						
General Fund	228,879					228,879
Special Revenue Funds		45,881	5,346	69,771	68,563	189,561
Total Fund Balances	<u>\$ 251,557</u>	<u>\$ 63,705</u>	<u>\$ 11,374</u>	<u>\$ 69,771</u>	<u>\$ 68,563</u>	<u>\$ 464,970</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 464,970
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Governmental Funds.	6,705,922
Accumulated Depreciation	(1,941,949)
Short-term and Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Governmental Funds.	
Financing Obligations Principal	<u>(160,902)</u>
Net Assets Of Governmental Activities	<u>\$ 5,068,041</u>

The accompanying notes are an integral part of the financial statements.

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RUSSELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

RUSSELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	ASAP Fund	Non- Major Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 1,137,614	\$	\$	\$	\$ 113,822	\$ 1,251,436
In Lieu Tax Payments	123,270					123,270
Excess Fees	87,581					87,581
Intergovernmental	1,033,068	937,685	104,010	18,050	219,193	2,312,006
Charges for Services		525	2,796		14,062	17,383
Miscellaneous	142,048	173,637	6,407		17	322,109
Interest	1,966	3,017	268		1,162	6,413
Total Revenues	<u>2,525,547</u>	<u>1,114,864</u>	<u>113,481</u>	<u>18,050</u>	<u>348,256</u>	<u>4,120,198</u>
EXPENDITURES						
General Government	644,003					644,003
Protection to Persons and Property	142,061		590,777			732,838
General Health and Sanitation	151,589				1,136	152,725
Social Services				18,360	141,511	159,871
Recreation and Culture	23,511				113,086	136,597
Roads		804,327				804,327
Airports					25,269	25,269
Debt Service		198,533			48,756	247,289
Capital Projects	757,781				50,000	807,781
Administration	365,084	125,135	111,150		69,361	670,730
Total Expenditures	<u>2,084,029</u>	<u>1,127,995</u>	<u>701,927</u>	<u>18,360</u>	<u>449,119</u>	<u>4,381,430</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>441,518</u>	<u>(13,131)</u>	<u>(588,446)</u>	<u>(310)</u>	<u>(100,863)</u>	<u>(261,232)</u>
Other Financing Sources (Uses)						
Transfers To Other Funds	(711,019)					(711,019)
Transfers From Other Funds			591,000	70,081	49,938	711,019
Debt Issuance					60,000	60,000
Total Other Financing Sources (Uses)	<u>(711,019)</u>		<u>591,000</u>	<u>70,081</u>	<u>109,938</u>	<u>60,000</u>
Net Change in Fund Balances	(269,501)	(13,131)	2,554	69,771	9,075	(201,232)
Fund Balances - Beginning (Restated)	<u>521,058</u>	<u>76,836</u>	<u>8,820</u>		<u>59,488</u>	<u>666,202</u>
Fund Balances - Ending	<u>\$ 251,557</u>	<u>\$ 63,705</u>	<u>\$ 11,374</u>	<u>\$ 69,771</u>	<u>\$ 68,563</u>	<u>\$ 464,970</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (201,232)
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Amounts Reported for Governmental Activities in the Statement of
Activities Are Different Because:

Governmental Funds Report Capital Outlays As Expenditures. However,
in the Statement of Activities, the Costs of Those Assets Are Allocated
Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	391,268
Depreciation Expense	(216,482)
Disposal of Assets Held For Resale	(190,000)

The Issuance of Debt (e.g. Bonds, Financing Obligations)
Provides Current Financial Resources to Governmental Funds,
While Repayment of Principal on Debt Consumes Current
Financial Resources of Governmental Funds. These Transactions,
However, Have No Effect On Net Assets.

Financing Obligation Proceeds	(60,000)
Financing Obligations Principal Payments	270,259

Change in Net Assets of Governmental Activities	<u><u>\$ (6,187)</u></u>
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TO THE FINANCIAL STATEMENTS**

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RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Receivables are recognized on the Statement of Net Assets, but receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Russell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on the organization. The organization's balances and transactions are reported as though they are part of the county's primary government using the blended method.

Russell County Airport Board

On November 5, 1986, the Supreme Court of Kentucky ruled that the Russell County Airport Board (Airport Board) was not a legally formed entity under KRS 183.132, and therefore, was subordinate to Russell County Fiscal Court (Fiscal Court). Hence, the Fiscal Court is financially accountable for the Airport Board, legally entitled to the Airport Board's resources, as well as legally obligated for the Airport Board's debt. Financial information for the Airport Board is blended within Russell County's financial statements.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit

The following legally separate organization is reported in a separate column labeled 'Component Unit' on the Statement of Net Assets and the Statement of Activities to emphasize that this organization is separate from the fiscal court's primary government.

Russell County Tourist Commission

On December 12, 1981, the Russell County Fiscal Court established the Russell County Tourist Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting the recreation, tourist, and convention activity in Russell County. The Commission is composed of seven members appointed by the Russell County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties and two members are appointed at-large by the County Judge/Executive. The Commission, whose governing body is substantially different from the Fiscal Court, is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. Furthermore, on December 12, 1981, the Fiscal Court enacted an ordinance imposing a transient room tax, which is the Commission's major source of revenue. The Fiscal Court currently collects "3% of the gross rent for every occupancy of a suite, room or rooms charged and collected", which as required, is disbursed monthly to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court. Therefore, management has included this entity as a component unit, and the entity's financial activity for the year ended December 31, 2006 is discretely presented in the financial statements. A complete copy of the audit report may be obtained from the Commission.

C. Russell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Russell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Russell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. Russell County did not have any business-type activities or fiduciary funds during the fiscal year.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state government and transfers from General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

ASAP Fund – The primary purpose of this fund is to account for state grant receipts and expenditures for drug awareness education for the public.

The primary government also has the following non-major funds: The Local Government Economic Assistance Fund, Community Development Block Grant Fund, Tourism Fund, Drug Free Community Fund, and Airport Fund. All governmental funds of the primary government excluding the general fund, are considered special revenue funds.

Presentation of Component Unit

The financial statements present the Russell County Tourist Commission as a major discretely presented component unit. It is presented in a separate column on the Statement of Net Assets and the Statement of Activities to emphasize that the organization exists separate from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Assets Held For Resale

Assets held for resale, which include vehicles that have been purchased with the intent to sell within one year, are reported in the governmental type activity of the government-wide financial statements. Such assets are recorded at historical cost when purchased.

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-75
Buildings	\$ 25,000	10-60
Building Improvements	\$ 25,000	10-60
Machinery and Equipment	\$ 2,500	10-25
Vehicles	\$ 2,500	2-10
Infrastructure	\$ 20,000	10-60
Office Equipment	\$ 2,500	10-25

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Russell County Airport Board Fund. The Department for Local Government does not require a budget for this fund.

A formal budget was not adopted for the ASAP Fund because the activity was originally budgeted in the general fund.

K. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Russell County Fiscal Court: Russell County Ambulance Service District and the Russell County Hospital.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Related Organizations and Joint Venture (Continued)

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the 911 Dispatch Consortium (Consortium) is considered a joint venture of Russell County Fiscal Court. The Consortium is composed of the Fiscal Court, the City of Jamestown, the City of Russell Springs, and the Russell County Emergency Medical Service District. Each member of the consortium accepts "responsibility equally for any and all operating expenses and emergency needs approved by the management team, and agrees to pay for such costs in equal proportion of one-fourth each."

Note 2. Deposits

The primary government and its discretely presented component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned. The primary government and its discretely presented component unit do not have formal deposit policies for custodial credit risk but rather follow the requirements of KRS 41.240(4). As of June 30, 2007 all deposits of the primary government were covered by FDIC insurance or a properly executed collateral security agreement. Also, as of December 31, 2006 all deposits of the discretely presented component unit were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Assets Held For Resale

Assets held for resale activity for the year ended June 30, 2007 were as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Vehicles	\$ 190,000	\$	\$ (190,000)	\$
Total Assets Held For Resale	\$ 190,000	\$	\$ (190,000)	\$

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2007, was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 497,500	\$ 50,000	\$	\$ 547,500
Total Capital Assets Not Being Depreciated	497,500	50,000		547,500
Capital Assets, Being Depreciated:				
Buildings	2,362,349			2,362,349
Other Equipment	197,428	9,187		206,615
Vehicles and Equipment	792,279	46,088		838,367
Infrastructure	2,465,098	285,993		2,751,091
Total Capital Assets Being Depreciated	5,817,154	341,268		6,158,422
Less Accumulated Depreciation For:				
Buildings	(1,035,707)	(55,340)		(1,091,047)
Other Equipment	(68,165)	(8,548)		(76,713)
Vehicles and Equipment	(453,701)	(43,942)		(497,643)
Infrastructure	(167,894)	(108,652)		(276,546)
Total Accumulated Depreciation	(1,725,467)	(216,482)		(1,941,949)
Total Capital Assets, Being Depreciated, Net	4,091,687	124,786		4,216,473
Government Activities Capital Assets, Net	\$ 4,589,187	\$ 174,786	\$ 0	\$ 4,763,973

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 61,429
Protection to Persons and Property	5,950
General Health and Sanitation	1,360
Roads, Including Depreciation of General Infrastructure Assets	147,743
Total Depreciation Expense - Governmental Activities	\$ 216,482

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Capital Assets (Continued)

Capital asset activity of the discretely presented component unit for the year ended December 31, 2006, was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 30,240	\$	\$	\$ 30,240
Total Capital Assets Not Being Depreciated	30,240			30,240
Capital Assets, Being Depreciated:				
Building and Improvements	204,248			204,248
Equipment and Furniture	60,838			60,838
Total Capital Assets Being Depreciated	265,086			265,086
Less Accumulated Depreciation For:				
Building and Improvements	(84,252)	(5,107)		(89,359)
Equipment and Furniture	(43,525)	(2,561)		(46,086)
Total Accumulated Depreciation	(127,777)	(7,668)		(135,445)
Total Capital Assets, Being Depreciated, Net	137,309	(7,668)		129,641
Government Activities Capital Assets, Net	\$ 167,549	\$ (7,668)	\$ 0	\$ 159,881

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Russell County Tourist Commission	\$ 7,668
Total Depreciation Expense - Governmental Activities	\$ 7,668

Note 5. Short-term Debt

A. Mack Truck

On March 17, 2006, Russell County Fiscal Court entered into an agreement with the Kentucky Area Development Districts Financing Trust (KADD). The agreement was for the purchase of a Mack truck. The amount financed was \$95,000 at an interest rate of 3.75% for a period of one year, interest paid semi-annually. Principal and interest payments were made during the current year, leaving the principal balance at \$0 as of June 30, 2007.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Short-term Debt (Continued)

B. Mack Truck

On June 21, 2006, the Russell County Fiscal Court entered into an agreement with the Kentucky Area Development Districts Financing Trust (KADD). The agreement was for the purchase of a Mack truck. The amount financed was \$95,000 at an interest rate of 4.20% for a period of one year, interest paid semi-annually. Principal and interest payments were made during the current year, leaving the principal balance at \$0 as of June 30, 2007.

C. Bank Note

On February 21, 2007, the Russell County Airport Board entered into a secured promissory note with the Bank of Jamestown for the purchase of land. The principal was \$60,000 at an interest rate of 6.950 and will mature on August 21, 2007. Principal outstanding as of June 30, 2007 was \$60,000. Future principal requirements are:

	Governmental Activities
Fiscal Year Ended June 30	Principal
2008	\$ 60,000
Total	\$ 60,000

D. Changes In Short-term Liabilities

Short-term liability activity of the primary government for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	190,000	60,000	190,000	60,000	60,000
Governmental Activities Short-term Liabilities	<u>\$ 190,000</u>	<u>\$ 60,000</u>	<u>\$ 190,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt

A. Road Paving

On May 12, 1998, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$400,000. The funds were used for a road-paving project. Interest is paid monthly at a 4.50% interest rate. Principal is paid annually on January 20 and the principal balance outstanding as of June 30, 2007 was \$23,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 23,000	\$ 742
Totals	<u>\$ 23,000</u>	<u>\$ 742</u>

B. Fire Truck

On April 26, 2001, Russell County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$75,000. The funds were used to purchase a fire truck. Principal and interest are paid monthly at 4.25% interest rate. The principal balance outstanding as of June 30, 2007 was \$32,860. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 7,799	\$ 1,467
2009	8,191	1,078
2010	8,604	668
2011	<u>8,266</u>	<u>235</u>
Totals	<u>\$ 32,860</u>	<u>\$ 3,448</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

C. Sheriff Vehicles

On March 19, 2004, Russell County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$85,170. The funds were used to purchase sheriff vehicles. Interest is paid monthly at a 2.46% interest rate. Principal is paid annually on January 20 and the principal balance outstanding as of June 30, 2007 was \$17,872. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 17,872	\$ 338
Totals	<u>\$ 17,872</u>	<u>\$ 338</u>

D. Sheriff Vehicles

On May 20, 2004, Russell County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$6,524 to purchase a vehicle for the Sheriff. Principal and interest at a 4.25% rate are paid monthly. The principal balance outstanding as of June 30, 2007 was \$2,725. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 1,342	\$ 108
2009	<u>1,383</u>	<u>40</u>
Totals	<u>\$ 2,725</u>	<u>\$ 148</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

E. Sheriff Vehicles

On March 11, 2005, Russell County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$42,190 to purchase a vehicle for the Sheriff. Principal and interest at a 4.25% rate are paid monthly. The principal balance outstanding as of June 30, 2007 was \$24,445. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 8,502	\$ 1,045
2009	8,939	609
2010	7,004	158
Totals	<u>\$ 24,445</u>	<u>\$ 1,812</u>

F. Notes Payable – Component Unit

Note Payable – Bank of Jamestown

The Russell County Tourist Commission has a note payable to the Bank of Jamestown, payable in monthly installments of \$793, including interest at 6%, through August 2011. The note, collateralized by commercial real estate, had a principal balance outstanding at December 31, 2006 of \$39,255. Future principal and interest requirements are:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2007	\$ 7,364	\$ 2,154
2008	7,818	1,700
2009	8,300	1,218
2010	8,811	707
2011	6,962	85
Totals	<u>\$ 39,255</u>	<u>\$ 5,864</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

F. Notes Payable – Component Unit (Continued)

Note Payable – First National Bank

The Russell County Tourist Commission has a note payable to the First National Bank, payable in monthly installations of \$793, including interest at 6%, through August 2011. The note, collateralized by commercial real estate, had a principal balance outstanding at December 31, 2006 of \$39,255. Future principal and interest requirements are:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2007	\$ 7,364	\$ 2,154
2008	7,818	1,700
2009	8,300	1,218
2010	8,811	707
2011	6,962	85
Totals	<u>\$ 39,255</u>	<u>\$ 5,864</u>

G. Changes In Long-term Liabilities

Long-term liability activity of the primary government for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 181,161</u>	<u>\$ 0</u>	<u>\$ 80,259</u>	<u>\$ 100,902</u>	<u>\$ 58,515</u>
Governmental Activities Long-term Liabilities	<u>\$ 181,161</u>	<u>\$ 0</u>	<u>\$ 80,259</u>	<u>\$ 100,902</u>	<u>\$ 58,515</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

G. Changes In Long-term Liabilities (Continued)

Long-term liability activity of the discretely presented component unit for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Notes Payable	\$ 92,376	\$ 0	\$ 13,866	\$ 78,510	\$ 14,728
Governmental Activities					
Long-term Liabilities	<u>\$ 92,376</u>	<u>\$ 0</u>	<u>\$ 13,866</u>	<u>\$ 78,510</u>	<u>\$ 14,728</u>

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

All eligible employees can participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2007, Russell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustments

The beginning net asset balances as of June 30, 2006, for governmental activities of Russell County Fiscal Court have been restated due to correction of errors. The following is a reconciliation of net assets as of June 30, 2006, as previously reported to the restated net assets balance for the same period.

	<u>Governmental Activities</u>	<u>General Fund</u>
Beginning balance	\$ 5,155,081	\$ 548,157
Adjustments:		
Adjustment for prior year payroll	(27,099)	(27,099)
Adjustment for accumulated depreciation	(53,754)	
Adjustment for assets held for resale omitted	190,000	
Adjustment for debt omitted	<u>(190,000)</u>	
Restated beginning balance	<u>\$ 5,074,228</u>	<u>\$ 521,058</u>

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information – Modified Cash Basis
For The Year Ended June 30, 2007

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,090,600	\$ 1,090,600	\$ 1,137,614	\$ 47,014
In Lieu Tax Payments	62,500	62,500	123,270	60,770
Excess Fees	76,910	76,910	87,581	10,671
Intergovernmental Revenue	176,335	1,176,339	1,033,068	(143,271)
Miscellaneous	48,700	48,700	142,048	93,348
Interest	3,600	3,600	1,966	(1,634)
Total Revenues	1,458,645	2,458,649	2,525,547	66,898
EXPENDITURES				
General Government	557,964	714,741	644,003	70,738
Protection to Persons and Property	87,000	146,717	142,061	4,656
General Health and Sanitation	116,850	175,501	151,589	23,912
Social Services	1,500	1,500		1,500
Recreation and Culture	15,000	38,511	23,511	15,000
Airports	4,000	4,000		4,000
Capital Projects		1,095,191	757,781	337,410
Administration	324,678	385,494	365,084	20,410
Total Expenditures	1,106,992	2,561,655	2,084,029	477,626
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	351,653	(103,006)	441,518	544,524
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(479,590)	(479,590)	(711,019)	(231,429)
Transfers From Other Funds	127,937	127,937		(127,937)
	(351,653)	(351,653)	(711,019)	(359,366)
Net Changes in Fund Balance		(454,659)	(269,501)	185,158
Fund Balance - Beginning		521,058	521,058	
Fund Balance - Ending	\$ 0	\$ 66,399	\$ 251,557	\$ 185,158

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,024,745	\$ 1,035,043	\$ 937,685	\$ (97,358)
Charges for Services			525	525
Miscellaneous	6,000	82,380	173,637	91,257
Interest	2,900	2,900	3,017	117
Total Revenues	1,033,645	1,120,323	1,114,864	(5,459)
EXPENDITURES				
Roads	752,108	941,107	804,327	136,780
Debt Service	46,400	194,291	198,533	(4,242)
Administration	107,200	133,824	125,135	8,689
Total Expenditures	905,708	1,269,222	1,127,995	141,227
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	127,937	(148,899)	(13,131)	135,768
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(127,937)	(127,937)		127,937
	(127,937)	(127,937)		127,937
Net Changes in Fund Balance		(276,836)	(13,131)	263,705
Fund Balance - Beginning		76,836	76,836	
Fund Balance - Ending	\$ 0	\$ (200,000)	\$ 63,705	\$ 263,705

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 91,200	\$ 91,200	\$ 104,010	\$ 12,810
Charges for Services	5,000	5,000	2,796	(2,204)
Miscellaneous	7,600	7,600	6,407	(1,193)
Interest	1,000	1,000	268	(732)
Total Revenues	104,800	104,800	113,481	8,681
EXPENDITURES				
Protection to Persons and Property	497,897	598,145	590,777	7,368
Administration	86,493	195,065	111,150	83,915
Total Expenditures	584,390	793,210	701,927	91,283
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(479,590)	(688,410)	(588,446)	99,964
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	479,590	479,590	591,000	111,410
	479,590	479,590	591,000	111,410
Net Changes in Fund Balance		(208,820)	2,554	211,374
Fund Balance - Beginning		8,820	8,820	
Fund Balance - Ending	\$ 0	\$ (200,000)	\$ 11,374	\$ 211,374

RUSSELL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget was not adopted for the ASAP fund because the activity was originally budgeted in the general fund.

**RUSSELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

RUSSELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Tourism Fund	Drug Free Community Fund
ASSETS				
Cash and Cash Equivalents	\$ 10,999	\$	\$ 11,690	\$ 1
Total Assets	<u>\$ 10,999</u>	<u>\$ 0</u>	<u>\$ 11,690</u>	<u>\$ 1</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	\$ 10,999	\$	\$ 11,690	\$ 1
Total Fund Balances	<u>\$ 10,999</u>	<u>\$ 0</u>	<u>\$ 11,690</u>	<u>\$ 1</u>

RUSSELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2007
(Continued)

Airport Fund	Total Non-Major Governmental Funds
<u>\$ 45,873</u>	<u>\$ 68,563</u>
<u><u>\$ 45,873</u></u>	<u><u>\$ 68,563</u></u>
<u>\$ 45,873</u>	<u>\$ 68,563</u>
<u><u>\$ 45,873</u></u>	<u><u>\$ 68,563</u></u>

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RUSSELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

RUSSELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Tourism Fund	Drug Free Community Fund
REVENUES				
Taxes	\$	\$	\$ 113,822	\$
Intergovernmental	6,177	69,360		142,519
Charges for Services				
Miscellaneous				
Interest	47		62	
Total Revenues	<u>6,224</u>	<u>69,360</u>	<u>113,884</u>	<u>142,519</u>
EXPENDITURES				
General Health and Sanitation				1,136
Social Services				141,511
Recreation and Culture			113,086	
Airports				
Debt Service	48,756			
Capital				
Administration		69,361		
Total Expenditures	<u>48,756</u>	<u>69,361</u>	<u>113,086</u>	<u>142,647</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(42,532)</u>	<u>(1)</u>	<u>798</u>	<u>(128)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	46,318			
Debt Issuance				
Total Other Financing Sources (Uses)	<u>46,318</u>			
Net Change in Fund Balances	3,786	(1)	798	(128)
Fund Balances - Beginning	<u>7,213</u>	<u>1</u>	<u>10,892</u>	<u>129</u>
Fund Balances - Ending	<u>\$ 10,999</u>	<u>\$ 0</u>	<u>\$ 11,690</u>	<u>\$ 1</u>

RUSSELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Airport Fund	Total Non-Major Governmental Funds
\$	\$ 113,822
1,137	219,193
14,062	14,062
17	17
1,053	1,162
16,269	348,256
	1,136
	141,511
	113,086
25,269	25,269
	48,756
50,000	50,000
	69,361
75,269	449,119
(59,000)	(100,863)
3,620	49,938
60,000	60,000
63,620	109,938
4,620	9,075
41,253	59,488
\$ 45,873	\$ 68,563

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 25, 2008. We did not audit the financial statements of the Russell County Tourist Commission, a discretely presented component unit of the Russell County Fiscal Court. Those financial statements were audited by other auditors whose report has been furnished to us. Russell County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Russell County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Russell County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, 2007-03, and 2007-04.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies defined above, we consider the following to be material weaknesses: 2007-03 and 2007-04.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Russell County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2007-05, 2007-06, and 2007-07.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 25, 2008

COMMENTS AND RECOMMENDATIONS

**RUSSELL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES:

2007-01 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules

The Fiscal Court did not have a completed capital asset schedule for fiscal year ending June 30, 2007. A listing of capital asset additions and disposals was not properly maintained. In addition, the capital asset schedules did not have proper or adequate descriptions to identify each asset. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Furthermore, the capital asset schedules should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is disposed of it should be properly removed from the listing. We recommend that the Fiscal Court maintain complete and accurate capital asset schedules and records.

County Judge/Executive Mickey Garner's Response: None

2007-02 Purchase Requisitions Should Be Approved For All Expenditures Prior To Making Purchases

During our expenditure testing we noted the following exceptions:

- Several Jail Fund expenditure payments to various food and supplies vendors were paid from vendor invoices however, the items were ordered and received before a purchase requisition and purchase order was prepared.
- Purchase requisitions were not obtained for several expenditures payments from the Road Fund and Jail Fund.

An approved purchase requisition and purchase order should be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriations are available for the purchase. We recommend that, prior to all purchases being made, a purchase requisition and purchase order be prepared and approved.

County Judge/Executive Mickey Garner's Response: None

County Jailer Darrell McCreary's Response: None

INTERNAL CONTROLS - MATERIAL WEAKNESSES:

2007-03 The Fiscal Court Should Improve Internal Control Procedures

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The County Treasurer prepares and deposits the receipts, posts to the ledger and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations. The Occupational Tax Administrator receives and documents payments received for occupational tax and net profits. The Administrative Assistant prepares a listing of bills for Fiscal Court's approval from a separately maintained ledger and prints the checks. The County Judge and County Treasurer sign the checks without comparing to the invoices.

RUSSELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2007
(Continued)

INTERNAL CONTROLS - MATERIAL WEAKNESSES: (Continued)

2007-03 The Fiscal Court Should Improve Internal Control Procedures (Continued)

Because a lack of adequate segregation of duties existed for the above-mentioned accounting functions, the following occurred:

- The quarterly financial reports submitted to DLG were not accurate.
- The payroll account was not reconciled monthly.

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against inaccurate financial reporting, we recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

We also recommend the County Treasurer and County Judge/Executive, prior to signing checks, compare them against the original invoices. Additionally, we recommend monthly reconciliations between the ledgers maintained by the county treasurer and administrative assistant.

County Judge/Executive Mickey Garner's Response: None

2007-04 The Airport Board Lacks Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over all accounting functions. Adequate segregation of duties would prevent the same person from having a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations.

The bookkeeper receives the mail, prepares and deposits the receipts, writes checks, and performs the bank reconciliations. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting or errors increases.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, preparing checks, preparing reports and reconciling bank accounts. If these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible for these duties.

County Judge/Executive Mickey Garner's Response: None

Airport Treasurer's Response: None

RUSSELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2007
(Continued)

STATE LAWS AND REGULATIONS:

2007-05 The Fiscal Court Should Prepare An Accurate Financial Report To Submit To The State Local Finance Officer

The Fiscal Court is required to submit a quarterly financial report to the State Local Finance Officer. The final quarterly financial report remitted for fiscal year ended June 30, 2007 did not include all approved budget amendments. KRS 65.905 states, "each local government as defined by KRS 65.900 shall annually, after the close of the fiscal year, complete a uniform financial information report." The report should include by fund, all receipts to date, budget amendments, transfers, borrowed money, as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. We recommend the County prepare an accurate financial report to remit to the State Local Finance Officer.

County Judge/Executive Mickey Garner's Response: None

2007-06 The Fiscal Court Should Approve All Expenditures And Interfund Transfers

During our expenditure testing auditors noted \$678,626 of Wellness Grant expenditures, \$69,361 of Community Development Block Grant Expenditures, \$18,700 road expenditures, \$97,250 debt expenditures, and eleven interfund transfers that were not approved by Fiscal Court. KRS 68.275(2) states, "The County Judge/Executive shall present all claims to the fiscal court for review prior to payment...." We recommend the county ensure all expenditures and interfund transfers be approved by Fiscal Court prior to payment.

County Judge/Executive Mickey Garner's Response: None

2007-07 All Invoices Should Be Paid Within Thirty Days As Required By KRS 65.140

During our expenditure testing we noted several expenditures were not paid within 30 working days as required by statute. KRS 65.140(2) states that "unless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." We recommend that the Fiscal Court comply with KRS 65.140 and pay all invoices within 30 working days.

County Judge/Executive Mickey Garner's Response: None

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**


RUSSELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

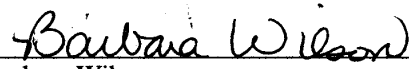
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
RUSSELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Russell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Mickey Garner
County Judge/Executive



Barbara Wilson
County Treasurer

